

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE	)	
COMMISSION OF THE ENVIRONMENTAL	)	
SURCHARGE MECHANISM OF EAST KENTUCKY	)	
POWER COOPERATIVE, INC. FOR THE	)	CASE NO.
SIX-MONTH BILLING PERIOD ENDING	)	2011-00032
DECEMBER 31, 2010 AND THE PASS-THROUGH	)	
MECHANISM FOR ITS SIXTEEN MEMBER	)	
DISTRIBUTION COOPERATIVES	)	

O R D E R

On March 17, 2005, the Commission approved East Kentucky Power Cooperative, Inc.'s ("EKPC") environmental surcharge application and established a surcharge mechanism.<sup>1</sup> The Commission also approved a mechanism to pass through the environmental surcharge to EKPC's 16 member distribution cooperatives ("Member Cooperatives").<sup>2</sup> Pursuant to KRS 278.183(3), the Commission must review the past operations of the environmental surcharge at six-month intervals. After hearing, the Commission may, by temporary adjustment to the surcharge, disallow any surcharge amounts found not to be just and reasonable and reconcile past surcharges with actual

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<sup>1</sup> Case No. 2004-00321, Application of East Kentucky Power Cooperative, Inc. for Approval of an Environmental Compliance Plan and Authority to Implement an Environmental Surcharge (Ky. PSC Mar. 17, 2005).

<sup>2</sup> Case No. 2004-00372, Application of Big Sandy RECC, Blue Grass Energy Cooperative Corporation, Clark Energy Cooperative, Cumberland Valley Electric, Farmers RECC, Fleming-Mason Energy, Grayson RECC, Inter-County Energy Cooperative, Jackson Energy Cooperative, Licking Valley RECC, Nolin RECC, Owen Electric Cooperative, Salt River Electric, Shelby Energy Cooperative, South Kentucky RECC and Taylor County RECC for Authority to Pass Through the Environmental Surcharge of East Kentucky Power Cooperative, Inc. (Ky. PSC Mar. 17, 2005).

costs recoverable pursuant to KRS 278.183(1). Therefore, the Commission hereby initiates a six-month review of EKPC's surcharge as billed from July 1, 2010 through December 31, 2010 to the Member Cooperatives. The Commission also initiates the corresponding review of the pass-through mechanism of the Member Cooperatives as billed from August 1, 2010 through January 31, 2011 to their retail member customers.<sup>3</sup>

To facilitate this review, a procedural schedule is set forth in Appendix A, attached hereto and incorporated herein. In accordance with that schedule, EKPC is to file prepared direct testimony in support of the reasonableness of the application of its environmental surcharge mechanism during the time period under review. In addition, the Member Cooperatives, or EKPC on their behalf, are to file prepared direct testimony in support of the reasonableness of the application of the pass-through mechanism during the time period under review. EKPC and the Member Cooperatives should also file responses to the information requested in Appendix B, attached hereto and incorporated herein. Since over- or under-recoveries may have occurred during the period under review in this proceeding, the Commission will entertain proposals to adopt one adjustment factor to net all over- or under-recoveries.

Since the approval of its original environmental compliance plan and surcharge mechanism, EKPC has sought and been granted two amendments to its original

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<sup>3</sup> The Settlement Agreement approved in Case Nos. 2004-00321 and 2004-00372 allows the Member Cooperatives to pass through the environmental surcharge to their customers at approximately the same time as EKPC bills the environmental surcharge to the Member Cooperatives, thus avoiding a billing lag for the Member Cooperatives. Therefore, the costs incurred from May 2010 through October 2010 are billed to the Member Cooperatives in the months of July 2010 through December 2010, with these same costs passed through to the member customers on the bills for August 2010 through January 2011.

compliance plan and surcharge mechanism. The environmental surcharge, as billed during the period under review, provides recovery of the incremental costs associated with the original compliance plan, as well as the costs associated with the first and second amendments to the compliance plan. When determining its over- and under-recovery of the surcharge in this proceeding, EKPC should reflect the impacts of these prior cases, as is applicable.

IT IS HEREBY ORDERED that:

1. EKPC and each of its Member Cooperatives listed in footnote 2 shall be parties to this case.

2. The procedural schedule set forth in Appendix A, attached hereto and incorporated herein, shall be followed in this proceeding.

3. EKPC shall appear at the Commission's offices on the date set forth in Appendix A to submit itself to examination on the application of its environmental surcharge as billed to its Member Cooperatives from July 1, 2010 through December 31, 2010. The Member Cooperatives, or EKPC on their behalf, shall also submit themselves to examination on the application of the pass-through mechanism as billed to the Member Cooperatives' member customers from August 1, 2010 through January 31, 2011. There shall be no opening statements or summaries of testimony at the public hearing.

4. EKPC shall, by the date set forth in Appendix A, file its prepared direct testimony in support of the reasonableness of the application of its environmental surcharge mechanism, and the Member Cooperatives, or EKPC on their behalf, shall

file by that date their prepared direct testimony in support of the reasonableness of the application of the pass-through mechanism during the period under review.

5. Any party filing testimony shall file an original and 10 copies.

6. a. The information requested herein is due by the date set forth in Appendix A. Responses to requests for information shall be appropriately bound, tabbed and indexed and shall include the name of the witness responsible for responding to the questions related to the information provided, with copies to all parties of record and seven copies to the Commission. Any request for information by letter from the Commission Staff shall be responded to as if set forth in a Commission Order.

b. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

c. Any party shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect.

d. For any request to which a party fails or refuses to furnish all or part of the requested information, that party shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

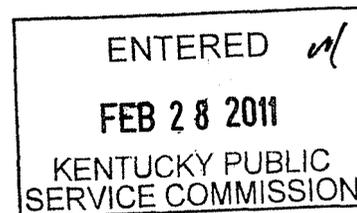
7. Within seven days of the Commission's granting intervention to a party, EKPC shall provide the party with a copy of its monthly environmental surcharge reports as filed with the Commission for the review period.

8. EKPC's monthly environmental surcharge reports and supporting data for the review period shall be incorporated by reference into the record of this case.

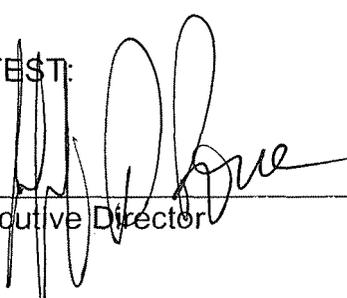
9. The Commission does not look favorably upon motions for continuance. Accordingly, motions for extensions of time with respect to the schedule herein shall be made in writing and will be granted only upon a showing of good cause.

10. Nothing contained herein shall prevent the Commission from entering further Orders in this matter.

By the Commission



ATTEST:

  
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Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2011-00032 DATED FEB 28 2011

- EKPC and the Member Cooperatives, or EKPC  
on their behalf, shall file their prepared direct testimony and  
responses to the information requested in Appendix B  
no later than..... 03/24/11
- An informal technical conference is to begin at 1:30 p.m.,  
Eastern Daylight Time, in Conference Room No. 1 of the  
Commission's offices at 211 Sower Boulevard,  
Frankfort, Kentucky for the discussion of issues..... 04/12/11
- All additional requests for information to EKPC shall  
be filed no later than ..... 05/05/11
- EKPC and the Member Cooperatives  
shall file responses to additional requests for  
information no later than ..... 05/19/11
- Intervenor testimony, if any, in verified prepared form  
shall be filed no later than..... 06/02/11
- All requests for information to Intervenors shall be  
filed no later than ..... 06/16/11
- Intervenors shall file responses to requests for  
information no later than ..... 06/30/11
- Public Hearing is to begin at 10:00 a.m., Eastern  
Daylight Time, in Hearing Room 1 of the Commission's  
offices at 211 Sower Boulevard, Frankfort, Kentucky,  
for the purpose of cross-examination of witnesses of  
EKPC, the Member Cooperatives, and Intervenors..... To be scheduled
- Briefs, if any, shall be filed by ..... To be scheduled

## APPENDIX B

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2011-00032 DATED FEB 28 2011

#### FIRST INFORMATION REQUEST OF COMMISSION STAFF TO EAST KENTUCKY POWER COOPERATIVE, INC. AND THE 16 MEMBER DISTRIBUTION COOPERATIVES

1. Prepare a summary schedule showing the calculation of E(m) and the surcharge factor for the expense months covered by the billing period under review. Form 1.1 can be used as a model for this summary. Include the two expense months subsequent to the billing period in order to show the over- and under-recovery adjustments for the months included in the review period. Include a calculation of any additional over- or under-recovery amount EKPC believes needs to be recognized for the six-month review. Include all supporting calculations and documentation for the additional over- or under-recovery.

2. Prepare summary schedules showing the pass-through revenue requirement for each of the Member Cooperatives for the months corresponding to the six-month review. Include the two months subsequent to the billing period included in the review period. Include a calculation of any additional over- or under-recovery amount the distribution cooperative believes needs to be recognized for the six-month review. Include all supporting calculations and documentation for the additional over- or under-recovery.

3. Refer to Form 2.3, Inventory and Expense of Emission Allowances, for each of the expense months covered by each billing period under review.

a. For the sulfur dioxide emission allowance inventory, explain the reason(s) for all purchases of allowances reported during these expense months.

b. For the nitrogen oxide emission allowance inventory, explain the reasons for all purchases of allowances reported during these expense months.

c. Explain how the purchase of allowances in the expense months covered by the billing period complies with EKPC's emissions allowance strategy plan.

4. Refer to Form 2.5, Operating and Maintenance Expenses, for each of the expense months covered by each billing period under review. For each of the 22 expense account numbers listed on this schedule, explain the reason(s) for any change in the expense levels from month to month if that change is greater than plus or minus 10 percent.

5. Provide the percentage of EKPC's debt issuances directly related to projects in the approved compliance plan that have a variable interest rate as of the October 2010 expense month.

6. The Settlement Agreement approved in Case No. 2004-00321 provides that EKPC's rate of return on compliance-related capital expenditures will be updated to reflect current average debt cost at the conclusion of the six-month surcharge review. Provide the following information as of October 31, 2010:

a. The debt issuances directly related to projects in the approved compliance plan and subsequent amendments and corresponding outstanding balances of each debt issuance.

b. The debt cost for each debt issuance directly related to the projects in the approved compliance plan and subsequent amendments.

c. EKPC's calculation of the weighted average debt cost and the rate of return resulting from multiplying the weighted average debt cost by a 1.35 TIER.

Include all supporting calculations showing how the weighted average debt cost was determined.

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